

Financial Literacy and Credit-building Services Among Microenterprise Development Organizations

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Introduction

From the inception of the microenterprise field in the United States, practitioners have recognized that strong financial management skills are a critical ingredient for business success. At the same time, they realize that the populations they seek to target are often those most lacking in the information, skills and access to financial products that are necessary to build such skills. As such, financial education and access to financial products have consistently been part of the range of products and services offered by many microenterprise programs.

In the current economic context – in which consumers of all kinds are struggling under the burden of heavy consumer debt or even bankruptcy – credit scores have become exponentially more important in determining access to financial services and many other kinds of resources. As traditional financial institutions are retrenching from various market segments and product lines, and as financial products have become more complex, both the need and market demand for financial literacy and credit building has grown. As a result, microenterprise programs are revisiting or expanding their efforts in this realm. As they do, they confront questions as to whether, and how, these products and services contribute to the overall impact, sustainability, and reach of the core microenterprise programming.

To better inform how microenterprise practitioners are approaching this issue of financial literacy and credit-building services, FIELD undertook a scan of practice to better understand and document both the current body of work in the field, and emerging and promising new directions taken by practitioners. This scan sought the answer to four critical questions:

- What is the current state of practice in financial literacy and credit building within the microenterprise field?
- What are the innovative or leading-edge practices emerging in this area?
- To what extent do financial literacy and credit-building products bring more clients into programs, and to what extent do these clients move up from these products into more substantial business lending and technical assistance? Where do these services best fit in the product mix of microenterprise organizations interested in scale?
- And, how can organizations make this programming sustainable in terms of its overall cost recovery?

The scan brings together information from three sources – a review of literature on financial literacy, education and credit building; survey data from microenterprise organizations; and interviews and discussions with microenterprise practitioners and others in the field of microenterprise and financial education and literacy – to address these four questions. The scan begins by laying out key definitions and terms, and then identifies key findings relating to the field’s practice of financial literacy and credit

building, and the potential contribution of these products and services to greater scale in service delivery.

About this Research

This scan of practice is part of an ongoing research project by FIELD that examines how U.S. microenterprise development organizations (MDOs) can scale up their Business Development Services (BDS) in order to serve many more microentrepreneurs, and to serve them effectively. In this project, BDS are defined as non-financial resources including, but not limited to, training and technical assistance, which microenterprise organizations provide to help entrepreneurs start and grow their businesses. Scale is defined as serving large numbers of individuals. In addition, the definition of scale, as applied in this project, also incorporates the concepts of increased market penetration and of achieving economies in service delivery, which, in turn, can lead to greater organizational sustainability and deepened social impact. This BDS research project is supported with funding from the U.S. Small Business Administration's PRIME (Program for Investment in Micro-entrepreneurs) program, as well as with funding provided by the Charles Stewart Mott Foundation and Citi Foundations in support of FIELD's Scale Academy for Microenterprise Development.

Key Definitions and Terms

The broad terms “financial education” and “credit building” encapsulate many different types of products and services. To ascribe some clarity to these terms, especially as they relate to microenterprise development organizations (MDOs), we sketch a typology of those services. These definitions and terms are derived from several sources, including materials from the Credit Builders Alliance and the Center for Financial Services Innovation's (CFSI) recent study, *From Financial Education to Financial Capability: Opportunities for Innovation* (Sledge, Tescher and Gordon 2010).

- **Financial literacy training/financial education:** classes or workshops that provide information on budgeting, savings, personal financial management, financial products, etc.
- **Financial coaching/advising:** one-on-one assistance on budgeting, savings, personal financial management, financial products, etc.
- **Credit counseling:** one-on-one assistance focused on dealing with a crisis and/or an individual's debt situation, typically provided by licensed credit counselors.
- **Credit education/credit coaching:** one-on-one counseling or technical assistance focused on building basic credit knowledge and helping individuals build positive skills and behaviors.
- **Credit-building loans/financial products:** financial products, including checking and savings accounts, prepaid accounts, such as term loans or credit cards, offered by the organization or in partnership with a financial institution, that seek to help an individual to manage cash, debt and/or improve their credit profile.

Key Findings

The microenterprise field has been engaged in addressing the issues of financial skills and financial access since its earliest days. A look at the offerings of some of the first U.S. microenterprise programs reveals that practitioners recognized early on that strong financial management skills were critical to business success; and, therefore, that their training and technical assistance efforts must help clients to build knowledge and skills in this area. Much of the early financial literacy and education programming emerged among MDOs working with low-income women, including welfare recipients, who were seeking to use business ownership as a way to move towards economic self-sufficiency. For example, the majority of microenterprise programs that worked with recipients or Temporary Assistance for Needy Families (TANF), as part of the Charles Stewart Mott Foundation's Microenterprise Welfare-to-Work demonstration, covered personal credit and finance (budgeting and money management) as a core training topic within their Personal Effectiveness curriculum. The focus on 'personal effectiveness' flowed from the rationale that, for many small-scale entrepreneurs, personal and business finances are co-mingled, and, therefore, that good personal financial skills were key to business success. Other topics taught under this personal effectiveness umbrella included stress and time management skills, in addition to self esteem-building, goal-setting and motivational techniques (FIELD 2002, 1-3).

Influenced in part by microenterprise programs in developing countries, practitioners in the field also took an early interest in savings. The personal effectiveness curriculum noted above often incorporated a discussion of savings as part of its focus on goal setting, and, as MDOs moved into the 1990s, many embraced the concept further with the rationale that neither credit nor training would be solely sufficient to take most poor entrepreneurs out of poverty (Ssewamala and Sherraden 2004, 405). Hundreds of MDOs began offering Individual Savings Accounts (IDAs) with a small business component, viewing savings as a critical asset for low-income entrepreneurs. Programs active in this IDA arena integrated education about budgeting and money management into these matched savings programs. Ssewamala's and Sherraden's study of IDA programs suggests that the institutional arrangements afforded by MDOs facilitated better savings outcomes among low-income people than they would have attained without them. Moreover, the study found that economic literacy programming had a positive effect on outcomes. Their statistical evaluation of IDA participant savings activity found that the inclusion of *up to six hours* of financial education produced higher participation rates and stronger savings outcomes (more than six proved insignificant in increasing savings levels) (420-423).

Survey data indicate that in fiscal year 2008, almost half of U.S. microenterprise programs were offering some type of financial literacy or credit-building services. Of the 369 organizations that participated in FIELD's most recent field-wide survey, forty-nine percent (n=179) indicated they provided one or more of the following services: financial literacy, credit counseling, and/or credit-builder loans. Among a set of 53 MDOs providing financial literacy and credit-building products surveyed in a subsequent effort, 63.5 percent had been providing some type of service for more than five years, and 23.1 percent had been providing services for between two and five years.

Survey Data on Financial Education and Credit Building in Microenterprise Organizations

The data on the financial education and credit-building activities of U.S. microenterprise development organizations is drawn from two sources. First, in 2009 FIELD conducted a field-wide survey that attempted to collect data on fiscal year 2008 activities of all microenterprise programs operating in the United States. Through that survey, FIELD was able to identify programs that provided some type of financial literacy, credit counseling or credit-building services.

Second, as part of this research project on Scaling-Up Business Development Services, FIELD subsequently distributed a survey to all MDOs that had indicated in their response to the field-wide survey that they were engaged in providing these services. Credit Builders Alliance (CBA) also promoted both surveys to its members and extended network of MDOs interested in credit building. The purpose of the survey was to gather additional information about the nature of these services and their role within the microenterprise program, particularly as it related to the issue of scale.

More recently, many MDOs have added a focus on building credit as well as financial knowledge and skills. As microenterprise organizations have sought to serve the swelling ranks of consumers newly unbanked during the credit crunch, the erosion of credit quality has called for new approaches to serve clients who might not be ready for the typical route to microloans or business training. As a result, a concerted effort to offer relevant programming to build or rebuild credit has become more widely practiced in the last five years. This new focus, coupled often with financial products, has quickly emerged as a growing trend.

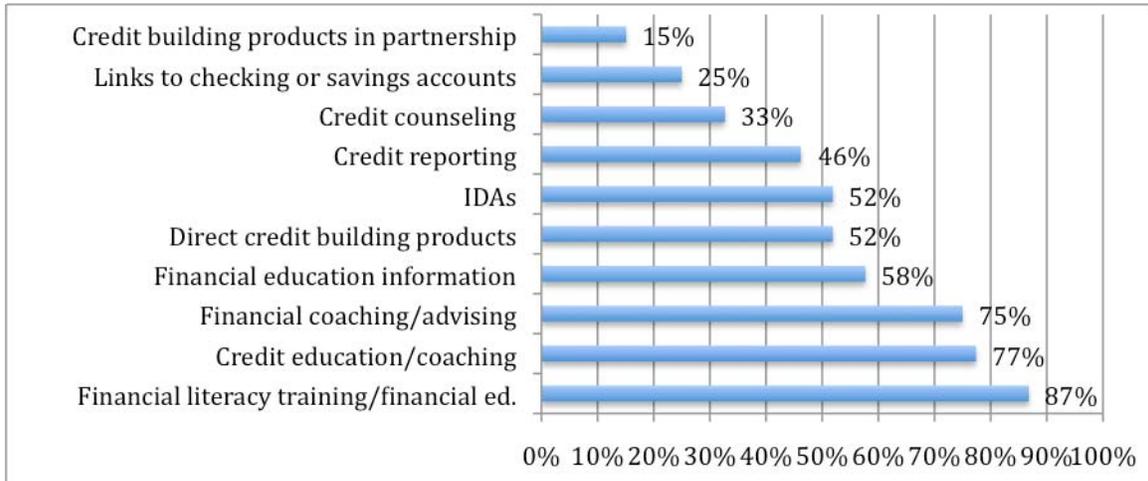
For example, MDOs have taken on a more articulated credit-building focus. Credit building is defined here as efforts to help an individual to understand and improve his or her credit. Credit-building efforts can include the provision of services, such as coaching, counseling and training; they can also include the provision of financial products, such as term loans and secured credit cards. In a February 2009 survey of its members, CBA learned that more than half of its 105 CBA Reporter¹ members had begun offering small

¹ CBA Reporter is a tool offered by CBA that enables microenterprise development organizations to report their borrowers' credit histories to TransUnion and Experian on a monthly basis.

credit builder loans since 2006, and a similar percent noted they had integrated credit-building into their asset-building approach during the same period.

The financial literacy and credit-building products and services offered by MDOs mirror their core microenterprise products – there is a strong focus on direct provision of training, counseling, and financial products. As Chart 1 below indicates, over 85 percent of MDOS that responded to FIELD’s detailed follow-up survey noted that they provide financial literacy or financial education classes or workshops. Three-quarters of respondents indicated they provided financial coaching or advising, and just over that percentage indicated they provide credit education or coaching. Smaller percentages of programs indicated that they offer other credit-building products and services: slightly more than 50 percent of programs noted that they offered IDAs, and the same percentage noted that they provide credit-building loans or financial products. Slightly less than half of respondents report their clients’ payment histories to the major credit bureaus. Much smaller percentages of respondents noted that they provide credit counseling or offer targeted credit-building loans.

Chart 1
Financial Literacy and Credit-building Products
Offered by Microenterprise Development Organizations



n=52

There is clear evidence of a significant, and growing, need and demand for financial literacy and credit-building services among the populations targeted by the microenterprise field. FIELD’s survey of MDOs engaged in financial literacy and credit-building work found strong evidence of growing demand – with over 86 percent of respondents indicating that the number of clients needing services has grown over the past two years. Less than two percent indicated the number of clients needing services had declined over the period.

This survey data is reinforced by research for the broader financial education field. Some of the first pieces of work focused on the rationale for financial education, with studies illustrating the extent of financial illiteracy. Studies, such as some conducted by Anamaria Lusardi, have looked at the variation in rates of illiteracy across age, race, gender and ethnic groups (Lusardi 2008, 13). Research shows that sub-segments of low-income or minority populations (immigrants, African Americans, Hispanics and Native Americans) often face greater challenges in financial literacy. For example, a 2009 study showed that women, individuals with low levels of education, African Americans, and Hispanics were less likely to correctly answer financial literacy questions around fundamental concepts of economics and finance (FINRA 2009, 19). Additionally, Lusardi suggests that high rates of financial illiteracy go unabated in the U.S. because of increasingly complex and rapidly evolving financial instruments, and argues for financial engineering² (Lusardi 2008).

Available research also raises concerns about financial knowledge among the general population as well. The *2009 Consumer Financial Literacy Survey* found that 41 percent (92 million) of adults rated themselves with a C, D or F in their knowledge of personal finance. Additionally, 28 percent (58 million) of adults admit to not paying their outstanding debt on time, and, despite free access to credit reports, more than one-third (37 percent) of American adults do not know their credit score.³ In spite of these bleak statistics, a potential indicator of demand is that the majority of respondents (80 percent of adults) in the study noted that they would benefit from professional financial advice (NFCC 2009, 3-5).

Although there is clear evidence of growing need and demand, MDOs must respond with appropriate products and services – the first critical step in achieving scale.

There is an emerging movement in financial education away from simple knowledge gains toward financial capability. Financial capability distinguishes between *knowledge acquisition* and *longer-term behavioral change*. The longer-term behavior change suggested through financial capability includes a range of elements, such as effective budgeting, saving, and management of financial products and services.

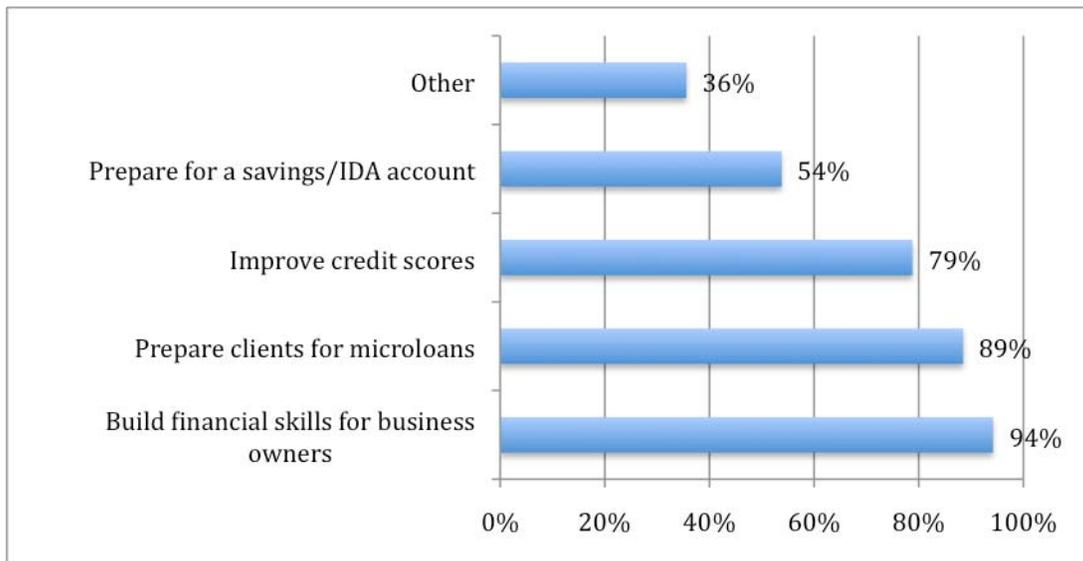
Some of the characteristics of effective interventions aimed at building financial capability include providing materials relevant to the target group, providing services in a timely manner, having an actionable item (such as a financial product) paired with the information, and offering ongoing, longer-term support. (Sledge, Tescher and Gordon 2010, 6) Given that the microenterprise industry has often provided access both to education and to financial products (whether the latter are business checking and savings accounts, microloans, IDAs, or the more recent credit-building loans and secured credit cards), and that MDOs often have long-term relationships with their clients, many in the

² Financial engineering is described by Lusardi as building a structure that helps/prevents consumers from poor financial choices; for example, having your retirement fund mix chosen (having a default option). This definition suggests very strong consumer protections, above and beyond mere financial disclosures, and a simplification of some of these processes.

³ Most free credit reports do not include an individuals' credit score, which still must be purchased for a fee.

the industry have been engaged in strategies now being defined as financial *capability*. In fact, as Chart 2 indicates, the purposes that MDOs articulate for their financial education and credit-building services reflect a focus on building skills and financial access. Almost 95 percent of programs state that one of the purposes of these services is to help clients to build personal financial skills that support business ownership. Nearly 87 percent report that the purpose is to prepare clients for a microloan, almost 80 percent are seeking to improve their clients' credit scores, and over 50 percent are seeking to prepare clients for a savings or IDA account.

Chart 2
Purposes of MDO Financial Education and Credit-building Services



n=52

Targeting populations with tailored programming improves outcomes. Innovative and tailored approaches to financial education programming are particularly useful in impacting difficult to reach segments of the population, especially those that are low- to moderate income. Effective approaches move beyond simply translating a standard curriculum, for example, to address group-specific obstacles (i.e. Latinos, the elderly or youth) in the program's design. For example, Spader and others present the case study of a Spanish-language *telenovela* (soap opera) with financial education themes that was first developed for local television in North Carolina, but has since been more widely distributed in other large U.S. Hispanic markets. Its social marketing format seeks to raise awareness and knowledge around financial concepts (i.e., banking and home ownership) among Latinos as a precursor to financial behavioral change. These authors suggest that this type of format could impact viewers at different levels of readiness for financial behavioral change (Spader, Ratcliffe, Montoya and others 2009, 60-64).

Another study, by Servon and Kaestner, evaluated a bank program that sought to increase the use of on-line banking among low- to moderate-income individuals with a heavy focus on tailored financial literacy and on-line training. Tailored and intensive

intervention in this area showed some potential in enabling this population, which was less literate technologically, to adjust their current financial behavior around on-line banking (Servon and Kaestner 2008, 299).

The *CFSI Underbanked Consumer Study* also speaks to the issue of appropriately targeting and serving specific consumer segments. The study cites an underbanked segment – the so-called entrepreneurial Next Wave -- comprised of 24 million consumers 18 to 34 years old, who the authors describe as aspirational and optimistic about meeting future financial goals. They recommend, for example, serving the segment with small business services, financial advice and credit-building services (CFSI 2008, 4).

In the microenterprise field, ACCION USA has tailored its financial education content to focus on a large segment of its client population: Hispanic immigrant business owners. ACCION USA's strategy of tapping populations already involved in entrepreneurial activity, and shaping its financial education curriculum around the particular needs of that segment (i.e., incorporating the use of shorter pieces of timely business content using client examples), has allowed the organization to achieve its outlined goals of linking its financial education services more explicitly to its microfinance services (Edgcomb, Klein and Gomez 2010, 38).

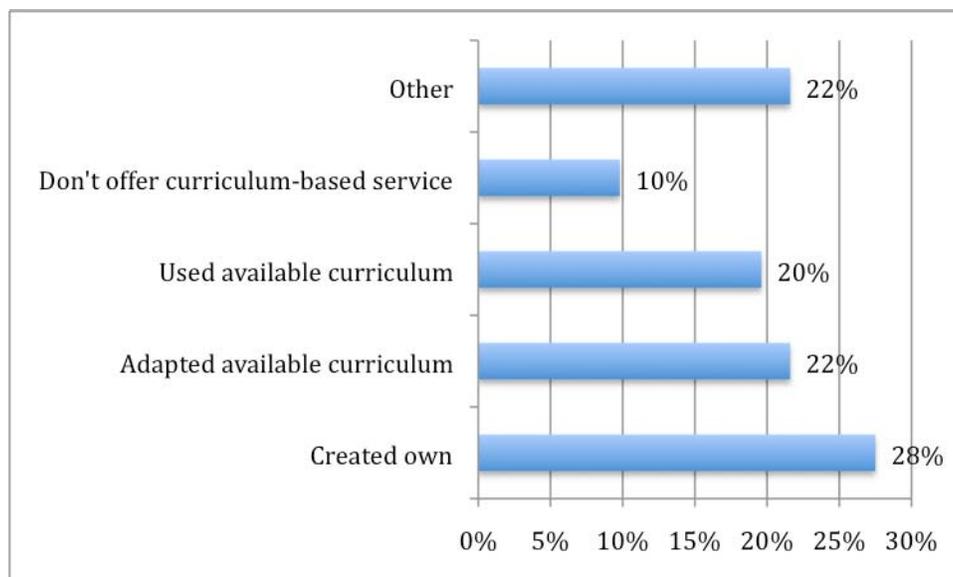
The above examples illustrate that there is not a one-size-fits-all solution to financial education and literacy, and that understanding the challenges and characteristics of a specific target market supports program innovation and success.

Despite the wide array of government and private resources dedicated to financial education and literacy programming, most microenterprise programs either build or adapt their own content, drawing from a range of sources. A wide array of government agencies has actively promoted financial education both at the federal and state level. For example, the U.S. Department of the Treasury Office of the Comptroller of the Currency (OCC) has a division focused on financial literacy, as does the Federal Reserve and the Treasury. Within the federal government, financial education has been primarily viewed as a means to protect consumers. As such, widespread dissemination of information is the overarching strategy. For example, in December 2009, the OCC launched a financial education campaign geared towards U.S. Hispanics in partnership with Univision, the nation's largest Spanish language media company. The Federal Reserve similarly seeks to reach wide swaths of the population through media outlet partnerships, but also focuses on strategic partnerships and capacity-building for community-based organizations working in this area. Private financial institutions have also invested significant resources into the development and deployment of financial education and financial literacy curricula, with many of the nation's largest financial institutions developing their own models and materials, and partnering with nonprofit providers to disseminate them.

Despite the wealth of available on-line and written content, the majority of MDO practitioners answering FIELD's survey on their financial literacy services noted that they either created their own curriculum (27.5 percent) or adapted an available

curriculum to meet the needs of their client base (21.6 percent; see Chart 3). As the microenterprise field continues to wrestle with the issue of scale, and as financial literacy and credit building gain more widespread prevalence, it will be worth considering whether the microenterprise field should move towards greater standardization in the products offered — as standardization is often a precursor to scale. In moving toward standardization, it will be important to understand to what extent organizations can maintain a level of flexibility in their content and product development, while still reaping the benefits of practices that have worked well with similar populations of microentrepreneurs.

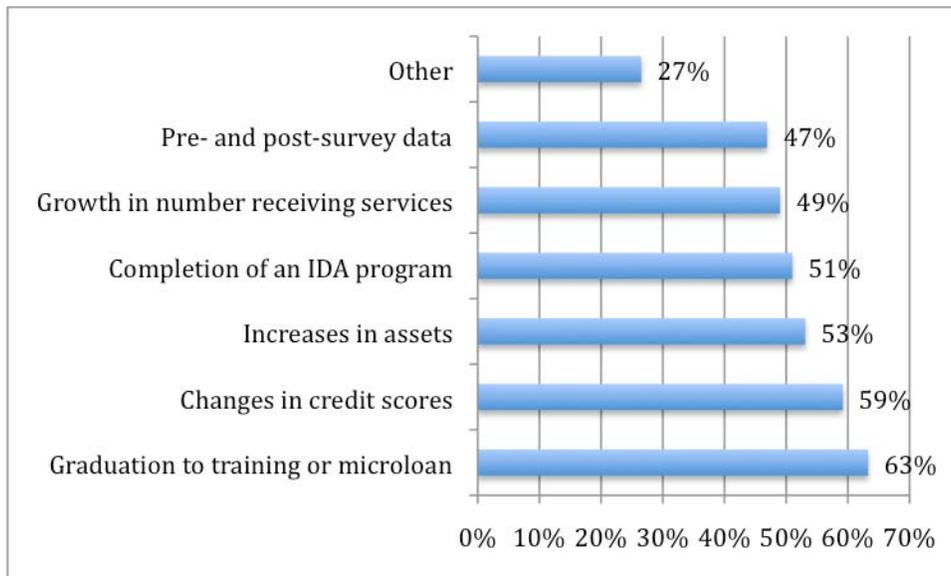
Chart 3
Curricula used for Financial Education or Credit Education Courses



n=51

Increasing their scale of service delivery appears to be one of the primary motivations for MDOs to provide financial education and credit-building services. As Chart 4 indicates, microenterprise organizations measure the success of their financial education and credit-building services in a range of ways. The most prevalent measure is the movement of clients into their business training or their microloan program – in other words, into their core microenterprise programs. Growth in the number of clients receiving services and completion of an IDA program are other prevalent measures of success for programs.

Chart 4
Metrics for Measuring Outcomes and Effectiveness



n=49

Survey data from the field also suggest that MDOs are reaching substantial numbers of individuals with their financial education and credit-building services. Among the 51 organizations that provided data, 56.8 percent reached at least 100 clients with these services in 2009, and 17.6 percent reached 500 or more clients that year. It should be noted, however, that many survey respondents seek to target populations beyond microentrepreneurs with their financial literacy and credit-building programs. For example, survey respondents include community action agencies, Native American Community Development Financial Institutions, and organizations serving refugees that offer microenterprise programs amidst a range of other resources aimed at their target populations.

MDOs also place strong value on the benefits that clients derive from financial education and credit-building services. As indicated in Chart 4, fifty-nine percent of survey respondents noted that the change in clients' credit scores is one of the metrics they use to measure client outcomes from these services. Fifty-three percent cited increases in assets, 8.2 percent track the client's ability to access capital from commercial banks or other sources (than the MDO itself), and 8.2 percent track changes in the families' overall financial situations (increased incomes, increased savings or net worth, reduced debt) as other metrics used to measure outcomes and effectiveness.

Among MDOs with a primary focus on business development services, financial education and credit-building services may also be a tool to support growth through aggregation of services. FIELD's recent report, *Key Data on the Scale of Business Development Services*, examined the product mix of small- versus large-scale BDS

organizations. It found that, for the most part, larger organizations offered a wider array of business development services than smaller ones.⁴ This finding suggests that the growth of these organizations has come not solely from extending their core services, but also by adding incremental services (in other words, through aggregation as well as massification). Given the evidence of growing demand for these products and services, financial literacy and credit-building products would appear to be a tool for scale through product aggregation. For MDOs considering this strategy, it is worth noting that adding services will require additional resources. FIELD's research on business development services indicates that some services – such as technology, incubators and access to markets services in particular – demand significant additional investment to do well (FIELD 2010, 9). As will be discussed below, the field does not yet have clear data on the costs involved in providing financial literacy and credit-building services. On the other hand, as will also be discussed, these services do provide opportunities for revenue generation among MDOs.

Microlenders looking to achieve greater scale believe that financial literacy and credit-building products offer benefits to them and to their clients. As FIELD's survey data illustrate, many MDOs view financial literacy and credit-building services as a means to prepare entrepreneurs to receive a microloan. The recent experience of a set of scale-oriented microlenders affiliated with FIELD's Scale Academy for Microenterprise Development illustrates how microlenders are incorporating these products and services into their programs. These lenders have developed educational and counseling products, and, in many instances, combined these with a financial product such as a matched IDA, a secured card, or a credit-building loan. As was the case with the larger group of programs surveyed by FIELD, in building their education and counseling products, some lenders developed their own content, while others used pieces of readily-available curricula. They have taken on these services under the assumption that clients will benefit from improved credit scores and overall financial skills, and their institutions will reap stronger loan applicants, and, ultimately, more loans. Indeed, these products and services have helped to expand lenders' target markets (reaching those needing basic financial literacy, those needing help building credit and/or repairing credit); build client skills and improve their credit; test some clients' performance as borrowers; and to recruit potential borrowers.

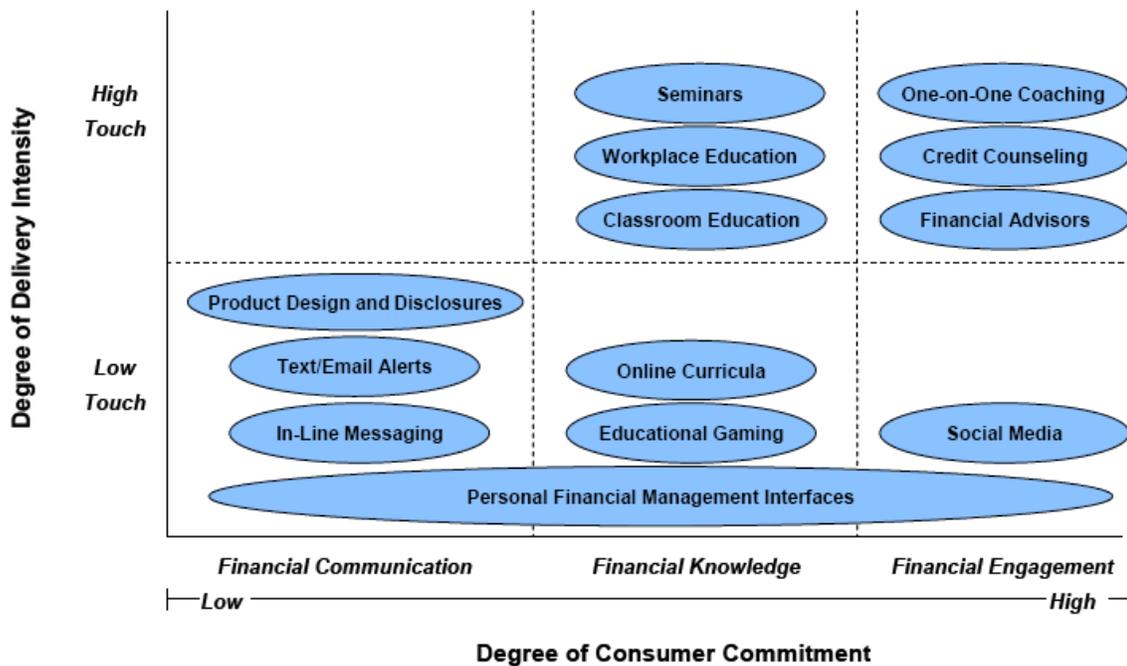
Microlenders have cited value in adding these services because they meet a critical need among their clients and among a much larger, unbanked/underbanked market that includes business owners and non-owners alike. The lenders also cited additional institutional benefits from offering these services, including revenue generation, the attraction of new funders and greater visibility in local markets. However, although these lenders see benefits from offering these financial literacy and credit-building products and services, all also recognize the need to understand more fully their costs and relative benefits (Edgcomb, Klein and Gomez 2010, 39).

⁴ Services provided by BDS could include technical assistance, training, mentoring, access to markets, financial literacy, credit counseling, tax preparation, case management services, legal, government contracting, networking, business incubation, technology services, etc.

Practitioners must build explicit links between their financial literacy and credit-building services and their core microenterprise services if they want to maximize the potential for scale. If scale is simply envisioned as an increase in customers served, then incorporating financial literacy and credit-building services can lead to greater volume. However, the lessons culled from this experience among the abovementioned microlenders also suggest that there is not an automatic link between financial literacy and credit building and an increase in microenterprise activity. Lenders found that in order to increase the volume of microloans, they needed to develop explicit links between their educational and credit-building services (which, given the abovementioned trends, can apply to a wide range of potential markets), and their target market (start-up or existing entrepreneurs). To link the products more effectively, these lenders tailored their financial education curriculum to the specific needs of entrepreneurs, offered credit-builder loans designed explicitly as step products to business loans, and created clear bridges from their financial education and credit-building programs to their microlending staff and services (Edgcomb, Klein and Gomez 2010, 38-40).

Microenterprise programs can consider a wide range of both high- and low-touch approaches in building a sustainable and cost-effective set of financial literacy and credit-building products. CFSI’s discussion of scale and cost in the pursuit of financial capability provides insight to MDOs offering these services. CFSI presents a framework of financial capability that displays the range of services offered by providers along axes that indicate the level of consumer commitment and the intensity of the financial intervention (see graphic below).

Graphic 1

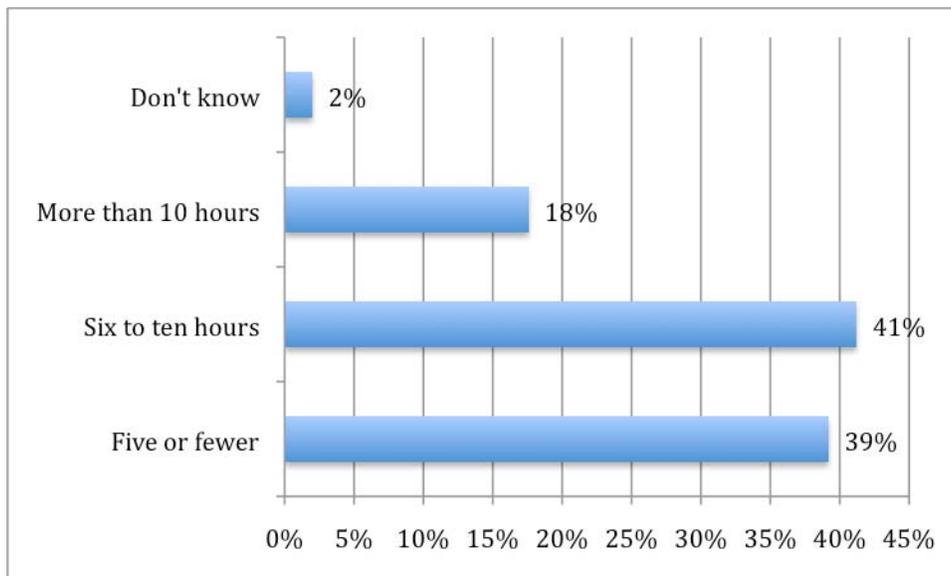


Source: From *Financial Education to Financial Capability: Opportunities for Innovation*, CFSI 2010.

The framework suggests that higher-touch financial interventions, such as coaching or classroom and group-based approaches, help to facilitate learning and behavior change. However, scaling these strategies is often difficult and costly (Sledge, Tescher and Gordon 2010, 12). If MDOs intend to use these products and services as a vehicle for scale, they should consider how to contain costs, perhaps by using a hybrid of low-touch and technological approaches to complement their current higher-touch offerings.

The conversation around sustainability dovetails with the discussion around evaluation of financial literacy programming. Ssewamala and Sherraden’s study of IDAs found that programs could still achieve the same positive savings outcomes, and perhaps reduce program costs, by providing fewer hours of general financial education (Ssewamala and Sherraden 2004, 420). And, in fact, survey data indicate that current practice reflects a judicious investment in these types of services: with 39.2 percent of MDOs surveyed stating that they provide five or fewer hours of financial education and credit-building services per client on average, 41.2 percent providing between six and ten hours, and 17.6 percent providing more than ten hours of service on average (see Chart 5) Ultimately, understanding the right inputs into a financial education program will allow organizations to assess how they might contain costs, while still achieving effective outcomes.

Chart 5
Average Time per Client in Financial Education and Credit-building Services



n=51

Although MDOs will obviously incur costs in adding new products, financial education and credit-building products can also generate revenue for programs and support their overall sustainability. Some MDOs are offering financial education and credit-building services as fee-based products that, while they may not be fully self-supporting, do generate some revenue for their programs. Justine Petersen, an MDO based in St. Louis, Missouri, has managed to substantially cover the costs of its credit-building activities

through fees charged for its educational services and credit-building loans. Additionally, the organization reported additional cost savings by separating credit building out from its other microlending services, thereby enabling staff to focus more efficiently on their charge, whether it is personal finance or microlending.

Other microlenders report having engaged new funders that were solely interested in the financial education component of their programs, and also re-engaging waning funders based on the ongoing development of content and illustrations of impact from the programs. These lenders believe that these services strengthen their connection with clients, generate referrals, help to retain some borrowers, and improve portfolio quality – thereby also contributing to overall sustainability of the program (Edgcomb, Klein, and Gomez 2010, 38-40).

Offering products and services in concert or partnership with private sector financial institutions could also help MDOs to recognize efficiencies in product delivery and/ or new sources of revenue. Although corporate support for financial literacy programming is not a new phenomenon, many financial institutions have made a renewed commitment to this area in the aftermath of the financial crisis. This can be seen on a number of fronts, from internal financial literacy training for bank employees on the front lines, so that they can better cross-sell and educate consumers on product options, to participation in citywide initiatives like Bank On San Francisco and Bank on DC, and a reinvigorated effort in working with nonprofits spearheading work in this area. These financial institutions see a business case for this renewed focus: that better financial literacy and a more educated consumer translate into a healthier bottom line in the longer-term (Brisler 2009).

This potential alignment of focus could provide interesting opportunities for MDOs. In fact, 15.1 percent of respondents to FIELD’s survey noted that they are providing credit-building loans or financial products in partnership with a financial institution or other provider. For example, Justine Petersen has engaged in a yearlong partnership with Citibank to offer a Citi/Banamex Secured Card in close coordination with their own credit coaching services. Other MDOs responding to FIELD’s survey noted that they have recently engaged in innovative partnerships with credit unions and banks in offering their services. For example, the WECO Fund in Cleveland, Ohio, has partnered with local KeyBank to offer financial education through a center established by the bank next door to one of their branch locations. The center services clients at the location; in addition, the bank has contracted with WECO to develop a curriculum (called Learn and Earn) and execute a train-the-trainer program for bank employees.⁵

New platforms and tools are emerging to support work around financial literacy and education. New platforms and tools are starting to become available to practitioners looking to enhance their service offerings. For example, the Aspen Institute’s Assetplatform.org, is a Web-based resource offering, training, tools, products and services for staff at nonprofits that provide financial education, coaching and asset development services. One feature of the site is that it offers turnkey, low-cost financial

⁵ Phone conversation with Christine Henry, Executive Director of WECO Fund. July 2, 2010.

product offerings in areas such as savings, debt and low-cost prepaid cards that facilitate budgeting. The Credit Builders Alliance also offers tools to assist microlenders with their credit-building offerings. Its CBA Reporter product enables microlenders whose volume is too small to report directly to report their borrowers' payment performance to two credit bureaus. In addition, its CBA Access product provides organizations with soft-pull inquiry credit services to facilitate and complement their credit-building training services.

The field needs to find cost-effective ways of tracking or evaluating the impact of these products and services. In the broader financial education field, practitioner evaluation of programming tends to fall largely into several categories, including immediate program response measures (participant satisfaction levels and self-reported increases in knowledge) and follow-up action measures (asking participants how they have applied what they have been taught) (Fox, Bartholomae and Lee 2005, 199-200). Rigorous longitudinal studies, as well as control group studies, exist but tend to be less common. Given the diversity of program type, success measures vary widely. Among the MDOs engaged in financial literacy and credit building surveyed by FIELD, 46.9 percent of respondents noted that they use pre- and post-surveys of clients to measure the outcomes and effectiveness of their services, and another 6.1 percent indicated they use some type of post-program tool or survey to assess outcomes.

A study by Fox, Bartholomae and Lee argues for the adoption of key indicators in a common framework for the evaluation of financial education programs. This could be particularly relevant for MDOs working in this area, as it would contribute to consistency in data collection and facilitate clarity and transparency in program comparison. Although Lyons et al similarly advocate for common and standardized measures, they also recognize the need for flexibility to account for the wide variation in programs and target markets. Lyons, Palmer, Jayaratne and others also discuss the general lack of evaluation capacity among financial professionals and educators in measuring whether programs are meeting their intended goals (Lyons Palmer, Jayaratne and others 2009, 209). This lack of capacity and the limited staff and financial resources of many of the providers of these services illustrate the most challenging aspect of impact measurement. Fox, Bartholomae and Lee elaborate a five-tiered framework for comprehensive program evaluation, collecting data at every step of the program delivery process (Fox, Bartholomae and Lee 2005, 203-204). The hope is that by breaking down the evaluation process, the process will not be as daunting for providers to implement consistently. It would be useful for the microenterprise field to track emerging practice regarding evaluation and outcome/impact assessment in the financial education field, as these developments may have utility for the field's ongoing work in this area.

The microenterprise field should also look at innovative ways of measuring both short-term and long-term behavior change. While control group studies are the gold standard in social science research, this standard is often the most difficult and arguably most costly means to measure programmatic outcomes. However, particularly in light of the interest in financial capability, MDOs could benefit from consistent measurement of behavioral changes among their program participants. An innovative example of program design and evaluation is a program highlighted in the most recent CFSI study on

financial capability. Several local Los Angeles-based banks worked with the company *Saber es Poder* (SEP) to deliver financial education content to underbanked new immigrants through closed-circuit TV and pamphlets distributed during long wait periods at Los Angeles consular offices. SEP found that a high rate of individuals opened new bank accounts linked to promotions listed in the pamphlets, thus illustrating at least short-term gains in positive financial behavior. This example also underscores research that notes that *applied learning* (in this case, the opening of a new bank account) has a positive effect on successful financial outcomes (Braunstein and Welch 2002, 452). Several studies have concluded that teaching financial literacy in the abstract, or in the absence of a teachable moment, proves to be largely ineffective, both in retention of information, and in applied outcomes and behavior change.

In sum, the implication of much of the literature on impact is that practitioners should move beyond counting total program participants to consistently evaluating behavioral changes. This approach has already been demonstrated in the microenterprise field in the IDA evaluations detailed above. Moving toward ongoing tracking of behavior changes among clients will not only provide information to improve program delivery, but can be an important tool to use with funders and donors who support this programming.

Conclusion

From its inception the microenterprise field has recognized that personal financial knowledge and skills are critical factors in an entrepreneur's success in business ownership. For that reason, the earliest programs – particularly those targeted to the most low-income individuals – included training content aimed at building skills in key areas such as budgeting, savings, and money management. In more recent years, as credit scores have become the gateway to financial and other resources, MDOs have added new products and services that aim at helping aspiring entrepreneurs to build credit. Interest and engagement of MDOs in this area are driven both by the growing demand and need for these services within their target markets, and by the belief that the products and services can be tools for achieving greater organizational scale and sustainability.

In working to build the financial capability of their clients, MDOs are offering a range of products that includes information (financial and money management tips, credit counseling), skill building (financial education courses) and financial products (IDAs, micro- and credit-building loans, access to secured credit cards). Although their offerings draw on the wealth of information and materials by both federal and corporate efforts to expand financial education offerings, most practitioners have modified these tools and materials to meet the specific needs of their largely business-owner clientele.

Although the state of practice in the area of financial literacy and credit building is still emerging within the microenterprise field, there are a number of lessons that can be gleaned from the field's experience to date – and from the array of literature available on the broader fields of financial literacy and education.

- The most effective products and services are those that address the particular needs and characteristics of specific target populations, pay attention to the timing

and format in which the product is offered, and offer opportunities for applied learning about financial skills.

- The microenterprise field is well positioned to respond to the growing move toward financial capability because it has historically blended information and skill building with access to financial products.
- Although financial literacy and credit-building products appear to offer the potential to support greater scale, the microenterprise field needs better tools for understanding the costs and impact of these products and services.

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